KPMG sells off Lehman's China property loans

Print

By Sundeep Tucker in Hong Kong

Published: June 18 2009 03:00 | Last updated: June 18 2009 03:00

The liquidators of Lehman Brothers' Chinese property portfolio have moved swiftly to divest the bulk of the holdings amid concerns over the outlook for commercial real-estate values in Shanghai.

KPMG yesterday revealed that it had disposed of seven out of nine Chinese property-related loans and bonds, generating proceeds of more than $200m for creditors of the failed US bank.

The transactions, which achieved an average recovery rate of 80 cents in the dollar, represent the first major disposals from the extensive global real-estate portfolio built up by Lehman.

The disposals are likely to surprise those in the industry who had been pessimistic about the ability of liquidators to dispose of assets in volatile markets successfully.

Michael Lindsay, the KPMG partner in charge of the disposals, told the Financial Times that six of the seven loans related to property deals in Shanghai.

Most of the transactions involved a sale of the loan to the original borrower.

He said: "Our market intelligence in early 2009 indicated a risk of deterioration in commercial rental and capital values, especially in the Shanghai offices . . . we therefore felt it important to act swiftly."

A long pipeline of new commercial property in Shanghai is scheduled to be completed in the coming 12 months and so depress rental yields and capital values.

London-based Mr Lindsay, the global head of real estate at KPMG's corporate finance arm, is on secondment to the firm's Hong Kong office to oversee a diligence and disposal programme.

KPMG is liquidating the bulk of Lehman's nonJapan Asia assets , and the seven property loans were on the books of a Hong Kong-registered entity that last September had an aggregate exposure of $1.25bn.

The unit built up 44 positions in loans and convertible bonds related to hotel developments and retail and commercial buildings.

While most of the Chinese-related property is now off the books, KPMG is still seeking to offload more than 30 real-estate positions in Thailand, which have a combined par value of about $850m.

KPMG expects the Thailand-related loans to take far longer to shift, and that it might have to hold some until at least 2011 if it cannot attract reasonable offers.

Analysts have warned that complex structures governing foreign-owned property assets in countries such as Thailand could inhibit a speedy divestment programme.

Mr Lindsay said the realisation of $200m for creditors vindicated the firm's "borrower solutions" strategy, which effectively hands the counter-party of the loan the first opportunity to disengage from its lender.

KPMG is liquidating eight Lehman Hong Kong entities, which accounted for the bulk of the bank's Asian operations excluding Japan.

The book value of the aggregate assets is about $20bn, KPMG disclosed last November.

www.ft.com/lehman